

Message Text

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FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

L-03 H-02 PA-02 PRS-01 SEC-01 /111 W

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R 271739Z JUL 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0729

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 12637

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JUNE 26)

REF.: BONN 12471

1. MONEY SUPPLY: MONETARY EXPANSION ACCELERATED SHARPLY
IN JUNE. ON A SEASONALLY ADJUSTED BASIS, M3 INCREASED
BY DM 6.1 BILLION AS COMPARED WITH DM 4.2 BILLION IN MAY
AND DM 3.1 BILLION IN APRIL, AND M2 ROSE BY DM 3.9 BIL-
LION (MAY DM 2.7 BILLION; APRIL DM 2.8 BILLION). ONLY
M1 INCREASED AT A LESSER RATE; DM 0.9 BILLION AS COM-
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PARED WITH DM 5.8 BILLION IN MAY AND DM 1.3 BILLION IN

APRIL. THE BASIC FACTOR FOR THE MONETARY EXPANSION IN JUNE WAS THE LARGE EXTENSION OF BANK CREDITS TO DOMESTIC NON-BANKS AT A LEVEL WHICH REPRESENTED THE HIGHEST INCREASE EVER RECORDED FOR THE MONTH OF JUNE. THE INCREASE WAS SPARKED BY LENDING TO THE PRIVATE SECTOR, MAINLY IN SHORT-TERM LOANS. INDIVIDUAL COMPONENTS AND DETERMINANTS OF THE MONEY SUPPLY FOR JUNE (SEASONALLY NON-ADJUSTED, CHANGES IN BILLIONS OF DM) DEVELOPED AS FOLLOWS:

	JUNE	MAY	
	1976	1975	1976

I. BANK LENDING TO DOMESTIC

NON-BANKS	12.5	6.7	7.1
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OF WHICH TO

PUBLIC AUTHORITIES	1.1	5.7	3.1
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PRIVATE SECTOR	11.4	1.0	4.0
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II. NET EXTERNAL ASSETS OF

BANKS (INCL.BUNDESB.)	1.3	1.5	-1.9
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III. SAVINGS DEPOSITS AND

SAVINGS BONDS	1.7	3.6	2.2
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IV. TIME DEPOSITS (1)

AND OUTSTANDING BANK

BONDS (2)	1.8	0.6	2.4
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V. OFFICIAL ASSETS HELD AT

CENTRAL BANK	-0.4	2.0	-2.0
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VI. OTHER	6.8	3.4	-2.4
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2 -----

MONEY SUPPLY (M2)

(I PLUS II-III-IV-V-VI)	3.9	-1.4	5.0
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OF WHICH: CURRENCY IN

CIRCULATION AND SIGHT

DEPOSITS (M1)	4.7	4.7	5.8
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TIME DEPOSITS WITH

MATURITIES UP TO 4 YEARS	-0.8	-6.0	-0.8
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(1) WITH MATURITIES OF 4 YEARS AND MORE.

(2) EXCLUDING BONDS HELD BY BANKS.

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2. SCHILLER TO ADVISE SAUDI-ARABIAN GOVERNMENT: FORMER ECONOMICS AND FINANCE MINISTER SCHILLER WILL ADVISE THE SAG ON MATTERS CONCERNING INTERNATIONAL MONETARY AFFAIRS AND DOMESTIC ECONOMIC POLICY. ACCORDING TO THE NEWS-MAGAZINE DER SPIEGEL CHANCELLOR SCHMIDT HAD RECOMMENDED SCHILLER FOR THIS POSITION.

3. MONOPOLY COMMISSION: THE MONOPOLY COMMISSION CONSISTING OF FIVE EXPERTS APPOINTED BY THE FEDERAL GOVERNMENT IN 1973, HAS RECENTLY COMPLETED ITS FIRST REPORT. THE COMMISSION, ACCORDING TO PRESS REPORTS IS PARTICULARLY CRITICAL OF THE DEGREE OF BANK OWNERSHIP OR STOCKHOLDING IN NON-BANK BUSINESS FIRMS AND RECOMMENDS THAT BANKS IN THE FUTURE BE LIMITED TO HOLDING NO MORE THAN A FIVE PERCENT OWNERSHIP INTEREST IN ANY ONE NON-BANK FIRM. EXISTING LEVELS OF BANK PARTICIPATION WOULD NOT BE EFFECTED. EXCEPTIONS FROM THIS FIVE PERCENT

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L-03 H-02 PA-02 PRS-01 SEC-01 /111 W

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R 271807Z JUL 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0730

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

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LIMITATION, THE COMMISSION RECOMMENDS, COULD BE GRANTED BY THE BANKING SUPERVISORY BOARD SHOULD HIGHER LEVELS OF BANK INVESTMENT BE SOUGHT IN SECTORS RELATED TO BANKING BUSINESS OR SHOULD A REQUEST BE MADE IN CONNECTION WITH A FINANCIAL REORGANIZATION. WHILE THE COMMISSION'S RECOMMENDATION MIGHT REOPEN PUBLIC DISCUSSION ON THIS ISSUE, IT IS NOT LIKELY TO BECOME LAW IN THE FORESEEABLE FUTURE.

4. STATISTIC ON CREDIT LINES OF BANKS: THE BUNDESBANK HAS ANNOUNCED THAT BEGINNING YEAR-END 1976, GERMAN BANKS WILL BE REQUIRED TO SUBMIT A MONTHLY REPORT TO THE
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BUNDESBANK SHOWING THEIR OUTSTANDING CREDIT LINES TO DOMESTIC FIRMS AND INDIVIDUALS.

5. BUNDESBANK FOREIGN POSITION: IN THE PERIOD JULY 8-15 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.5 BILLION TO DM 89.9 BILLION. FOREIGN EXCHANGE HOLDINGS FELL BY DM 279 MILLION AND CLAIMS ON THE EUROPEAN FUND FOR MONETARY COOPERATION DECLINED BY DM 52 MILLION. CREDITS TO FOREIGN MONETARY AUTHORITIES OTHER THAN THE EC FUND INCREASED BY DM 193 MILLION AND FOREIGN LIABILITIES ROSE BY ABOUT DM 360 MILLION.

6. BANK LIQUIDITY: BANK LIQUIDITY LIKEWISE DECLINED SUBSTANTIALLY DURING THIS PERIOD BY DM 1.8 BILLION. MAJOR FACTORS REDUCING LIQUIDITY WERE A DM 4.5 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK, REFLECTING PAYMENTS FROM THE MINOR MID-JULY TAX DATE AND, ACCORDING TO THE BUNDESBANK, "CONSIDERABLE" BORROWINGS OF PUBLIC AUTHORITIES WHICH INCREASED CENTRAL BANK ASSETS OF BOTH THE FEDERAL AND THE STATE GOVERNMENTS BY DM 1.9 BILLION EACH. LIQUIDITY WAS ALSO REDUCED BY THE DECLINE IN BUNDESBANK MONETARY RESERVES (DM 0.5 BILLION) AND A DM 0.2 BILLION INCREASE IN CURRENCY IN CIRCULATION WHICH IS UNUSUAL IN THE SECOND WEEK OF A MONTH BUT REFLECTS THE EFFECTS OF THE VACATION SEASON. LIQUIDITY WAS INCREASED BY A DM 3.1 BILLION DECREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK AND OTHER FACTORS (DM 0.3 BILLION, NET). THE BANKS FINANCED THE LIQUIDITY LOSS BY RECOURSE TO BOTH REDISCOUNT BORROWINGS (DM 1.2 BILLION) AND LOMBARD BORROWINGS (DM 0.6 BILLION). AS OF JULY 15, 1976, THE BANKS' TOTAL REDISCOUNT BORROWINGS AMOUNTED TO DM 12.3 BILLION AND LOMBARD BORROWINGS TOTALLED DM 1.1 BILLION. THIS REPRESENTS AN INCREASE OF DM 8.7 BILLION IN REDISCOUNT BORROWINGS SINCE APRIL 30, 1976 AND AN DM 1.1 BILLION INCREASE IN LOMBARD BORROWINGS, WHICH WERE ALMOST ZERO

ON APRIL 30. THE BANKS' CEILING FOR REDISCOUNT BORROW-
INGS IS ESTIMATED CURRENTLY AT ABOUT DM 19 BILLION
WHICH INCLUDES SPECIAL REDISCOUNT FACILITIES FOR THE
AUSFUHRKREDIT GMBH (AKA; EXPORT CREDIT COMPANY) OF
DM 3.0 BILLION AND DM 0.5 BILLION FOR THE KFW (KREDIT
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ANSTALF FUER WIEDERAUFBAU; RECONSTRUCTION LOAN CORPOR-
ATION).

7. FOREIGN EXCHANGE MARKET: THE VOLUME OF DOLLAR/
DEUTSCHEMARK TRANSACTIONS REMAINED LOW WITH THE DOLLAR/
DM RATE CONTINUING TO FLUCTUATE WITHIN VERY NARROW
MARGINS. THE DM 2.2 BILLION GERMAN TRADE SURPLUS FOR
JUNE (SEE BONN 12471) APPEARS TO HAVE HAD NO SIGNIFICANT
EFFECT ON THE DOLLAR/DM RATE. DURING THE REPORTING WEEK
FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS
FOLLOWS:

FORWARD DOLLARS

SPOT DOLLARS (IN PERCENT PER ANNUM)

FIXING OPENING CLOSING ONE-MONTH THREE-MONTH

JULY 19	2.5748	2.5750	2.5760	-1.3	-1.4
20	2.5763	2.5750	2.5775	-0.9	-1.3
21	2.5767	2.5775	2.5765	-1.0	-1.3
22	2.5748	2.5750	2.5765	-1.3	-1.4
23	2.5779	2.5770	2.5765	-1.3	-1.4
26	2.5763	2.5762	2.5760	-0.9	-1.2

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 0731

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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8. MONEY MARKET: THE GERMAN MONEY MARKET REMAINED TIGHT. CALL MONEY RATES ARE STILL AT ABOUT 4 1/2 PERCENT, EQUALLING THE LOMBARD RATE AND EXCEEDING THE RE-DISCOUNT RATE BY ABOUT 1 PERCENT. DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY	ONE-MONTH MONEY	THREE-MONTH MONEY
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JULY 19	4.4-4.6	4.40	4.40
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20	4.5-4.7	4.40	4.40
21	4.5-4.7	4.45	4.50
22	4.5-4.6	4.45	4.50
23	4.5-4.6	4.45	4.50
26	4.5-4.6	4.45	4.50

9. BOND MARKET: ON THE MARKET FOR DOMESTIC BONDS PRICES REMAINED STABLE. CONCERNING THE MARKET FOR FOREIGN DEUTSCHEMARK BONDS, THE MITSUBISHI CHEMICAL LIMITED IS CURRENTLY OFFERING CONVERTIBLE BONDS OF NX 80 MILLION (COUPON 6 1/4 PERCENT, SEMI-ANNUAL INTEREST PAYMENTS, MATURITY 8 YEARS). THE SPANISH AUTOPISTAS DEL MARE NOSTRUM S.A. (AUMA) WILL OFFER A DM 70 MILLION LOAN

CARRYING A COUPON OF 9 PERCENT AND AN AVERAGE MATURITY OF 5.2 YEARS.

10. TAX RELIEF FOR DROUGHT-STRIKEN FARMERS: FINANCE MINISTER APEL HAS GIVEN STATE FINANCE MINISTERS THE AUTHORITY TO HELP DROUGHT-STRIKEN FARMERS BY MEANS OF POSTPONEMENT OF TAX PAYMENTS. REDUCTIONS OF TAX PREPAYMENTS AND BY DELAYING THE COLLECTION PROCEDURE.

11. SUIT BROUGHT OVER HANKEL REMARKS ON HESSISCHE LANDESBANK (HELABA) LOSSES: FOLLOWING SEVERAL PUBLIC COMMENTS IN WHICH HANKEL (FORMER PRESIDENT OF HELABA) CHARGED THAT OSSWALD (HESSIAN MINISTER PRESIDENT) AND REITZ (HESSIAN FINANCE MINISTER) WERE RESPONSIBLE FOR DM 750 MILLION OF HELABA'S LOSSES, HANKEL IS BEING SUED FOR SLANDER BY THESE INDIVIDUALS.

12. ECONOMIC INDICATORS PUBLISHED THIS WEEK: IN MAY, BUILDING PERMITS FOR HOUSING UNITS CAME TO 36,037, VERSUS 34,882 IN APRIL 1976 AND 29,211 IN MAY 1975. ACCORDING TO PRELIMINARY DATA JUST RELEASED BY THE FEDERAL STATISTICAL OFFICE, INSOLVENCIES IN MAY TOTALLED 681, VERSUS 850 IN APRIL AND 707 IN MAY 1975. ACCORDING TO AN ANNOUNCEMENT OF THE TRADE ASSOCIATION (WHOSE STATISTICS ARE NOT PRECISELY COMPARABLE TO THOSE OF THE FEDERAL STATISTICAL OFFICE), PRODUCER PRICES IN THE GERMAN METAL INDUSTRY INCREASED IN JUNE BY 0.1 PERCENT AS COMPARED WITH 0.5

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PERCENT IN THE PERIOD MAY-JUNE, 1.4 PERCENT IN MARCH-APRIL AND 1.1 PERCENT IN JANUARY-FEBRUARY. ACCORDING TO PRELIMINARY MAY DATA, ORDERS IN THE ELECTRICAL INDUSTRY WERE 21.3 PERCENT HIGHER IN MAY 1976 THAN IN MAY 1975. IN THE FIRST FIVE MONTHS OF THIS YEAR ORDERS EXCEEDED COMPARABLE 1975 LEVELS BY 13.2 PERCENT. ACCORDING TO DATA OF THE RHEINISCH-WESTFAELISCHES INSTITUT FUER WIRTSCHAFTSFORSCHUNG (RWE), IN THE FIRST HALF OF 1976 THE VOLUME OF GERMAN HANDICRAFTS SALES WAS 3 PERCENT HIGHER THAN IN THE FIRST HALF OF 1975. FOR THE SECOND HALF OF 1976 A FURTHER INCREASE IN SALES IS EXPECTED. IN JUNE, THE GERMAN TRADE SURPLUS (NON-SEASONALLY ADJUSTED) AMOUNTED TO DM 2.2 BILLION, WHILE THE CURRENT ACCOUNT BALANCE WAS IN A DEFICIT OF DM 0.1 BILLION (FOR DETAILS SEE BONN 12471).

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